

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Gaastra	County Iron
Fiscal Year End 06/30/06	Opinion Date 10/19/06	Date Audit Report Submitted to State 12/13/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

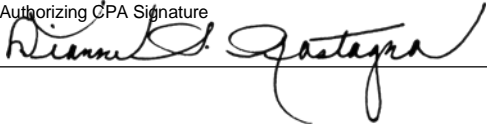
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) DS Rostagno CPA P.C.		Telephone Number 906-265-1040	
Street Address 101 West Maple Street		City Iron River	State MI
		Zip 49935	
Authorizing CPA Signature 	Printed Name Dianne S. Rostagno, CPA		License Number A245771

CITY OF GAASTRA

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council
City of Gaastra
PO Box 218
Gaastra, Michigan 49927

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the **City of Gaastra**, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the City Council, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

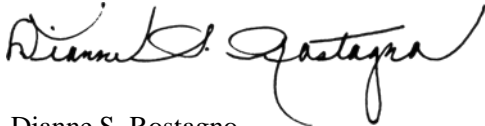
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** at June 30, 2006, and the respective changes in financial position and cash flows thereof for the year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the **City of Gaastra's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 21 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Gaastra**'s basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno", written in a cursive style.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Gaastra

P.O. Box 218
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The management of the **City of Gaastra** provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. As readers, you are encouraged to read this discussion and analysis in conjunction with the City's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation and health, culture and recreation, and community development. The business-type activities of the City include Water and Sewer Utilities.

Fund Financial Statements

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds.*

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spend-able resources, as well as on balances of spend-able resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

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Fund Financial Statements (Continued)

Governmental Funds (Continued)

The City maintains four governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and major street fund, both of which are considered major funds. All other governmental funds are presented in aggregate. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general and special revenue funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and major street funds, and is included in the "Required Supplementary Information" section of this document.

Proprietary Funds

Proprietary funds provide services for which the City charges customers a fee. The City has only one type of proprietary fund - enterprise funds. The enterprise funds of the City are used to report the same functions as the business-type activities in the government-wide financial statements. The Water Utility and Sewer Utility funds are presented separately in both the government-wide financial statements and the fund financial statements. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the City is the tax collection fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

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Fund Financial Statements (Continued)

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the City's major special revenue funds as presented in the governmental fund financial statements.

Separate combining financial statements for non-major governmental funds are also included in the Other Supplementary Information section of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$ 1,065,157 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (land, buildings, infrastructure, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2006, the City reported \$ 835,704 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 130,054 may be used to meet the government's ongoing obligations to citizens and creditors.

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$ 239,502 and \$ 825,655, respectively.

The following summarizes the comparative net assets at fiscal years ended June 30, 2006 and June 30, 2005:

	June 30, 2006		
	Primary Government		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Current and other assets	\$ 142287	\$ 94492	\$ 236779
Capital assets, net	<u>110133</u>	<u>1238176</u>	<u>1348309</u>
Total assets	\$ 252420	\$ 1332668	\$ 1585088
Long-term liabilities	4291	492000	496291
Other liabilities	<u>8627</u>	<u>15013</u>	<u>23640</u>
Total liabilities	\$ 12918	\$ 507013	\$ 519931
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	102528	733176	835704
Reserved	6920	92479	99399
Unreserved	<u>130054</u>	<u>0</u>	<u>130054</u>
Total Net Assets	\$ 239502	\$ 825655	\$ 1065157

City of Gaastra

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	June 30, 2005		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Current and other assets	\$ 148219	\$ 89449	\$ 237668
Capital assets, net	<u>79893</u>	<u>1260385</u>	<u>1340278</u>
Total assets	\$ 228112	\$ 1349834	\$ 1577946
Long-term liabilities	0	505000	505000
Other liabilities	<u>5101</u>	<u>13000</u>	<u>18101</u>
Total liabilities	\$ 5101	\$ 518000	\$ 523101
NET ASSETS			
Invested in capital assets, net of related debt	79893	742385	822278
Reserved	9550	89449	98999
Unreserved	<u>133568</u>	<u>0</u>	<u>133568</u>
Total Net Assets	\$ 223011	\$ 831834	\$ 1054845

For governmental activities, net assets increased by \$ 16,491.

For business-type activities, net assets decreased by \$ 6,179 during the fiscal year. The Water Fund increased by \$151, while the Sewer Fund decreased by \$6,330.

City of Gaastra

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

For the fiscal years ended June 30, 2006 and 2005, the comparative government-wide results of operations were as follows:

	June 30, 2006		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
REVENUES:			
<u>Program Revenues</u>			
Charges for services	\$ 72339	\$ 123297	\$ 195636
Operating grants and contributions	70266	0	70266
Capital grants and contributions	0	0	0
<u>General Revenues</u>			
Property taxes	54569	0	54569
Other taxes and fees	4139	0	4139
Unrestricted grants	50103	0	50103
Other	<u>22494</u>	<u>1008</u>	<u>23502</u>
Total Revenues	\$ 273910	\$ 124305	\$ 398215
EXPENSES:			
General Government	\$ 100523	\$ 0	\$ 100523
Legislative	12892	0	12892
Public safety	8531	0	8531
Public works	32245	0	32245
Streets and highways	75437	0	75437
Sanitation and health	8660	0	8660
Culture and recreation	3370	0	3370
Other Expenditures	3821	0	3821
Community development	0	0	0
Interest on long-term debt	262	0	262
Depreciation (Unallocated)	<u>11678</u>	<u>0</u>	<u>11678</u>

City of Gaastra

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	June 30, 2006		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
EXPENSES: (Continued)			
<i>Business-type activities:</i>			
Water	\$ 0	\$ 68919	\$ 68919
Sewer	<u>0</u>	<u>61565</u>	<u>61565</u>
Total Expenses	\$ 257419	\$ 130484	\$ 387903
Change in Net Assets	16491	(6179)	10312
Net Assets, beginning of year	223011	831834	1054845
Net Assets, end of year	\$ 239502	\$ 825655	\$ 1065157

	June 30, 2005		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
REVENUES:			
<u>Program Revenues</u>			
Charges for services	\$ 70295	\$ 105404	\$ 175699
Operating grants and contributions	62597	0	62597
Capital grants and contributions	0	0	0
<u>General Revenues</u>			
Property taxes	52361	0	52361
Other taxes and fees	744	0	744
Unrestricted grants	50948	0	50948
Other	<u>78114</u>	<u>2971</u>	<u>81085</u>
Total Revenues	\$ 315059	\$ 108375	\$ 423434

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	June 30, 2005		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
EXPENSES:			
General Government	\$ 99158	\$ 0	\$ 99158
Legislative	15349	0	15349
Public safety	30889	0	30889
Public works	35217	0	35217
Streets and highways	64449	0	64449
Sanitation and health	7540	0	7540
Culture and recreation	7162	0	7162
Other Expenditures	11048	0	11048
Interest on long-term debt	0	0	0
Depreciation (Unallocated)	<u>12200</u>	<u>0</u>	<u>12200</u>
<i>Business-type activities:</i>			
Water	0	65799	65799
Sewer	<u>0</u>	<u>45915</u>	<u>45915</u>
Total Expenses	\$ 283012	\$ 111714	\$ 394726
Change in Net Assets	32047	(3339)	28708
Net Assets, beginning of year	189592	836513	1026105
Cumulative effect of the change in accounting principle	1372	(1340)	32
Net Assets, end of year	\$ 223011	\$ 831834	\$ 1054845

Governmental Activities

Property taxes and other tax revenues comprise \$ 54,569 or approximately 20 percent of total governmental revenues.

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Governmental Activities (Continued)

Operating grants and contributions for governmental activities ended the fiscal year at \$ 70,266, primarily attributable to the State of Michigan's Act 51 funding for major and local streets. At fiscal year end, the City reported \$ 50,103 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The City expensed \$ 257,419 on governmental programs and services. The largest expense category was incurred for general government, which totaled \$ 100,523, or approximately 39 percent of total expenses. Streets and highway expenses were \$ 75,437 or 29 percent of the total, and public works expenses were \$32,245, or 13 percent of the total. Public safety expenses were attributed to management's continuing commitment to preserve the lives and property of the residents of the City, with current year expenses of \$8,531.

Business-type Activities

Business-type activities decreased the City's net assets by \$ 6,179. Charges for services for the Water and Sewer activities for the year ended were \$ 68,072 and \$ 55,225, respectively.

Total expenses for the Water and Sewer Fund activities for the year ended were \$ 68,919 and \$ 61,565, respectively.

Financial Analysis of the Governmental Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. This information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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Financial Analysis of the Governmental Funds (Continued)

Governmental Funds (Continued)

The City's governmental funds reported combined ending fund balances of \$ 136,974, of which \$6,920 is reserved and the remaining \$ 130,054 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the City ended the fiscal year with general fund revenues considerably more than the original budgetary projection, but just slightly higher than the final amended budget. Total expenditures were slightly higher than the final projection, but substantially more than the original budget. And, at fiscal year end, the fund balance was lower than either the original or the final amended budget projections.

Major street fund revenues were very close to both the original and the final amended budgets. Expenditures were very close to the final amended budget, which was somewhat higher than the original appropriation.

Revenues – Actual vs Budget

	Revenues Original <u>Budget</u>	Revenues Final <u>Budget</u>	Revenues Final <u>Actual</u>	Revenues Variance Actual vs Original <u>Budget</u>	Revenues Variance Actual vs Final <u>Budget</u>
General Fund	\$ 179242	\$ 200725	\$ 206622	\$ 27380	\$ 5897
Major Street Fund	50001	52147	52202	2201	55

Expenditures – Actual vs Budget

	Expenditures Original <u>Budget</u>	Expenditures Final <u>Budget</u>	Expenditures Final <u>Actual</u>	Expenditures Variance Actual vs Original <u>Budget</u>	Expenditures Variance Actual vs Final <u>Budget</u>
General Fund	\$ 179242	\$ 205468	\$ 211959	\$ (32717)	\$ (6491)
Major Street Fund	50001	55353	54758	(4757)	595

City of Gaastra

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Financial Analysis of the Governmental Funds (Continued)

Governmental Funds (Continued)

General fund financial and budgetary highlights of the fiscal year include:

- * Use of money and property exceeded original budgetary projections by \$ 22,507.
- * Charges for services were equal to the final amended budget, coming in at \$ 9,139. This is slightly more than the original budgeted estimates of \$ 8,365.
- * Distributions from the State of Michigan of \$ 53,082 were very close to the final amended budget of \$ 53,101.
- * Expenditures in total for the general fund were \$ 211,959, more than the final budgetary appropriation of \$ 205,468, but substantially more than the original budget estimate of \$179,242.

Major Street Fund financial and budgetary highlights of the fiscal year include:

- * State of Michigan Act 51 funding for major streets was very close to the original and final budgeted amounts; coming in at \$ 52,202 compared to the original budget of \$50,001 and the final budgeted amount of \$ 52,147.
- * Total expenditures were \$ 54,758, higher than budgeted in the original budget by \$ 4,757 and \$ 595 lower than the final amended budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

City of Gaastra

P.O. Box 218
GAASTRA, MICHIGAN 49927
(906) 265-2141

Financial Analysis of the Governmental Funds (Continued)

Governmental Funds (Continued)

Proprietary Funds (Continued)

Net assets of the Water and Sewer Funds at year-end were \$ 706,811 and \$118,844, respectively. The growth or change in net assets for the Water and Sewer Funds were \$ 151 and (\$ 6,330), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30 is \$ 1,348,309. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 1,610,944, or approximately 68 percent of the estimated original cost of total assets. Major and local street funds comprise \$ 220,282, or 14 percent of this infrastructure; the Water Fund's infrastructure is appraised at \$ 1,217,553, or 75 percent of the total; the Sewer Fund's infrastructure is \$173,109, or 11 percent of the total. There is no infrastructure attributed to the General Fund.

Significant capital events during the fiscal year ended June 30, 2006 included the City's purchase of a 2006 Chevrolet pickup truck at a cost of \$24,085, land acquisition and improvement at a cost of \$9,313, and roof repair on City property of \$8,520.

Long-term debt

As of June 30, the City (including the enterprise funds) had total bonded debt outstanding of \$ 505,000. The entire amount of this debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City also had a balance due on a \$9,000 loan from the Miners State Bank to help defray the cost of the 2006 Chevrolet pickup truck. The balance at June 30 was \$7,605.

City of Gaastra

P.O. Box 218
GAASTRA, MICHIGAN 49927
(906) 265-2141

Capital Asset and Debt Administration (Continued)

Long-term debt (Continued)

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation is significantly higher than the City's outstanding general obligation debt.

Currently, the bond program does not maintain underlying bond ratings.

Other Economic Factors and Next Year's Budget

Economic Factors

Despite the future economic uncertainty, the City's guiding principles for the upcoming fiscal year are to continue building and maintaining strong neighborhoods, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

Requests for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Manager
City of Gaastra
P.O. Box 218
Gaastra, Michigan 49927

BASIC FINANCIAL STATEMENTS

CITY OF GAASTRA

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Totals</u>
<u>ASSETS</u>	<u>Activities</u>	<u>Activities</u>	<u>Reporting Entity</u>
<u>Current Assets</u>			
Cash and Cash Equivalents (Note C)	\$ 110,445	\$ 52,528	\$ 162,973
Receivables			
Taxes	6,086	-	6,086
Accounts Receivable	-	3,868	3,868
Due from External Parties	9	-	9
Due from Other Governmental Units	15,890	-	15,890
Internal Balances	9,857	(9,857)	-
	<hr/>	<hr/>	<hr/>
Total Current Assets	142,287	46,539	188,826
<u>Noncurrent Assets</u>			
Cash and Cash Equivalents, Restricted	-	47,953	47,953
Capital Assets, Net (Note H)	110,133	1,238,176	1,348,309
	<hr/>	<hr/>	<hr/>
Total Noncurrent Assets	110,133	1,286,129	1,396,262
TOTAL ASSETS	\$ 252,420	\$ 1,332,668	\$ 1,585,088
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	5,313	2,013	7,326
Accrued Benefits	-	-	-
Current portion of long-term debt	3,314	13,000	16,314
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	8,627	15,013	23,640
<u>Noncurrent Liabilities</u>			
Loans/Notes Payable	4,291	-	4,291
Revenue Bonds Payable	-	492,000	492,000
	<hr/>	<hr/>	<hr/>
Total Noncurrent Liabilities	4,291	492,000	496,291
TOTAL LIABILITIES	\$ 12,918	\$ 507,013	\$ 519,931
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	102,528	733,176	835,704
Reserved for Streets and Highways	6,920	-	6,920
Reserved for Water Fund Repairs/Improvements	-	88,015	88,015
Reserved for Sewer	-	4,464	4,464
Unreserved and Undesignated	130,054	-	130,054
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 239,502	\$ 825,655	\$ 1,065,157

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants</u>
Primary Government -				
General government	\$ 100,523	\$ -	\$ -	\$ -
Legislative	12,892			
Public safety	8,531			
Public works	27,276	63,200		
Streets and Highways	75,437		70,266	
Street Lighting	4,969			
Sanitation and health	8,660	9,139		
Culture and recreation	3,370			
Other Expenditures	3,821			
Interest on Long-Term Debt	262			
Intergovernmental	-	-	-	-
Depreciation (Unallocated)	11,678			
Total Governmental Activities	\$ 257,419	\$ 72,339	\$ 70,266	\$ -
<u>Business-type Activities</u>				
Water	68,919	68,072	-	-
Sewer	61,565	55,225		
Total Business-type Activities	130,484	123,297	-	-
Total Primary Government	\$ 387,903	\$ 195,636	\$ 70,266	\$ -

General Revenues:

Taxes:

 Property taxes levied for general operations

 Other

 Penalties and Interest on Taxes

 State Sales Tax Distribution

 Gain on sale of equipment

 Interest and Investment Earnings

 Other

Total General Revenues

Change in Net Assets

NET ASSETS-BEGINNING OF YEAR

NET ASSETS-END OF YEAR

CITY OF GAASTRA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (100,523)	\$ -	\$ (100,523)
(12,892)		(12,892)
(8,531)		(8,531)
35,924		35,924
(5,171)		(5,171)
(4,969)		(4,969)
479		479
(3,370)		(3,370)
(3,821)		(3,821)
(262)		(262)
-	-	-
<u>(11,678)</u>		<u>(11,678)</u>
\$ (114,814)	\$ -	\$ (114,814)
-	(847)	(847)
	<u>(6,340)</u>	<u>(6,340)</u>
	(7,187)	(7,187)
\$ (114,814)	\$ (7,187)	\$ (122,001)
54,569	-	54,569
-		-
4,139	-	4,139
50,103		50,103
4,330		4,330
3,057	1,008	4,065
<u>15,107</u>		<u>15,107</u>
<u>131,305</u>	<u>1,008</u>	<u>132,313</u>
16,491	(6,179)	10,312
223,011	831,834	1,054,845
<u>\$ 239,502</u>	<u>\$ 825,655</u>	<u>\$ 1,065,157</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>General Fund</u>	<u>Major Street Fund</u>
<u>ASSETS</u>		
Cash and Investments (Note C)		
Unrestricted	\$ 109,386	\$ 770
Receivables:		
Taxes	6,086	
Due from Other Governmental Units	5,957	7,794
Due from Other Funds	13,938	
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 135,367</u>	<u>\$ 8,564</u>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>LIABILITIES</u>		
Accounts Payable	5,313	-
Accrued Benefits		
Due to Other Funds	-	3,288
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>\$ 5,313</u>	<u>\$ 3,288</u>
<u>FUND BALANCES</u>		
Reserved for Streets		5,276
Unreserved and undesignated	130,054	-
	<hr/>	<hr/>
TOTAL FUND BALANCES	<u>\$ 130,054</u>	<u>\$ 5,276</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 135,367</u>	<u>\$ 8,564</u>

CITY OF GAASTRA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

Nonmajor Governmental Fund	Total Governmental Funds
\$ 289	\$ 110,445
2,139	6,086
238	15,890
<u>238</u>	<u>14,176</u>
\$ 2,666	\$ 146,597
-	5,313
1,022	-
<u>1,022</u>	<u>4,310</u>
\$ 1,022	\$ 9,623
1,644	6,920
-	130,054
<u>1,644</u>	<u>136,974</u>
\$ 1,644	\$ 136,974
\$ 2,666	\$ 146,597

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GOVERNMENTAL FUNDS**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS***JUNE 30, 2006*

Fund Balances - Total Governmental Funds	\$ 136,974
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	637,577
Accumulated depreciation is:	(527,444)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Notes and Loans Payable	(7,605)
Compensated Absences	-

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Total Net Assets - Governmental Activities	<u>\$ 239,502</u>
---	--------------------------

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2006

	General Fund	Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>REVENUE</u>				
General Property taxes	\$ 54,569	\$ -	\$ -	\$ 54,569
Other local taxes/fees	4,139			4,139
Use of money and property	66,607	-	-	66,607
Sale of garbage bags	9,139			9,139
Sale of land	2,895	-	-	2,895
Sale of equipment	4,330			4,330
Charges for services		-	-	-
Miscellaneous	11,861			11,861
Intergovernmental	<u>53,082</u>	<u>52,202</u>	<u>15,085</u>	<u>120,369</u>
TOTAL REVENUE	\$ 206,622	\$ 52,202	\$ 15,085	\$ 273,909
<u>EXPENDITURES</u>				
Current Operating:				
General government	100,523	-	-	100,523
Legislative	12,892			12,892
Public safety	8,531	-	-	8,531
Public works	27,276			27,276
Streets and Highways	-	54,758	20,679	75,437
Street Lighting	4,969			4,969
Sanitation and Health	8,660	-	-	8,660
Culture and recreation	3,370			3,370
Capital Outlay	41,917	-	-	41,917
Debt Service				
Principal	-	-	1,395	1,395
Interest			262	262
Other Expenditures	<u>3,821</u>			<u>3,821</u>
TOTAL EXPENDITURES	\$ 211,959	\$ 54,758	\$ 22,336	\$ 289,053
Excess (Deficiency) of Revenues Over Expenditures	(5,337)	(2,556)	(7,251)	(15,144)
Other Financing Sources (Uses)				
Loan proceeds	9,000	-	-	9,000
Operating transfers in	-	-	7,177	7,177
Operating transfers out	<u>(7,177)</u>			<u>(7,177)</u>
Total Other Financing Sources(Uses)	1,823	-	7,177	9,000
Net Change in Fund Balances	(3,514)	(2,556)	(74)	(6,144)
FUND BALANCE-BEGINNING OF YEAR	<u>133,568</u>	<u>7,832</u>	<u>1,718</u>	<u>143,118</u>
FUND BALANCE-END OF YEAR	<u>\$ 130,054</u>	<u>\$ 5,276</u>	<u>\$ 1,644</u>	<u>\$ 136,974</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GOVERNMENTAL FUNDS**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***YEAR ENDED JUNE 30, 2006*

Net Change in Fund Balances - Total Governmental Funds	\$ (6,144)
---	-------------------

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense	(11,678)
Capital Outlay	41,917

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Loan proceeds are reported as revenue in the fund statements,
but not in the statement of activities (where it increases
long-term debt.)

(9,000)

Repayment of loan principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

1,395

-

Rounding difference

1

Change in Net Assets of Governmental Activities

\$ 16,491

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
<i>Current Assets</i>			
Cash, unrestricted	\$ 42,971	\$ 9,557	\$ 52,528
Accounts Receivable	1,467	2,401	3,868
Due from other funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total Current Assets	44,438	11,958	56,396
<i>Noncurrent Assets</i>			
Restricted cash	47,953	-	47,953
Capital assets:			
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	173,109	1,390,662
Less:			-
Allowance for depreciation	(467,954)	(58,729)	(526,683)
	<hr/>	<hr/>	<hr/>
Total capital assets, net	1,123,796	114,380	1,238,176
Total Noncurrent Assets	1,171,749	114,380	1,286,129
TOTAL ASSETS	\$ 1,216,187	\$ 126,338	\$ 1,342,525
<u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Accounts payable	2,013	-	2,013
Due to other funds	2,363	7,494	9,857
Current portion of long-term debt	13,000	-	13,000
Deferred revenues	-	-	-
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	17,376	7,494	24,870
<i>Non-current Liabilities</i>			
Revenue bonds payable	492,000	-	492,000
	<hr/>	<hr/>	<hr/>
Total Non-current Liabilities	492,000	-	492,000
TOTAL LIABILITIES	\$ 509,376	\$ 7,494	\$ 516,870
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	618,796	114,380	733,176
Reserved	88,015	4,464	92,479
Unreserved, undesignated	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 706,811	\$ 118,844	\$ 825,655

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS

YEAR ENDED JUNE 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 66,873	\$ 55,175	\$ 122,048
Miscellaneous	<u>1,199</u>	<u>50</u>	<u>1,249</u>
TOTAL OPERATING REVENUES	68,072	55,225	123,297
<u>OPERATING EXPENSES</u>			
Personal Services and Benefits	1,359	850	2,209
Contractual Services	3,927	26,988	30,915
Repairs and Maintenance	-	-	-
Other Supplies and Expenses	23,974	30,249	54,223
Depreciation	<u>18,732</u>	<u>3,478</u>	<u>22,210</u>
TOTAL OPERATING EXPENSES	47,992	61,565	109,557
OPERATING INCOME (LOSS)	20,080	(6,340)	13,740
<u>Non-Operating Revenues (Expenses)</u>			
Interest and Investment Revenue	998	10	1,008
Interest Expense	<u>(20,927)</u>	<u>-</u>	<u>(20,927)</u>
Total Non-Operating Revenues (Expenses)	(19,929)	10	(19,919)
Change in Net Assets	151	(6,330)	(6,179)
NET ASSETS - BEGINNING OF YEAR	<u>706,660</u>	<u>125,174</u>	<u>831,834</u>
NET ASSETS - END OF YEAR	<u>\$ 706,811</u>	<u>\$ 118,844</u>	<u>\$ 825,655</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

FISCAL YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM (USED BY)	WATER FUND	SEWER FUND	TOTAL
<u>OPERATING ACTIVITIES</u>			
Net cash received from fees and services	\$ 66,762	\$ 54,440	\$ 121,202
Other operating revenues	1,199	50	1,249
Cash payments to employees for services	(1,359)	(850)	(2,209)
Cash payments for goods and services	(25,888)	(57,237)	(83,125)
Other operating expenses	-	-	-
	<hr/>	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	\$ 40,714	\$ (3,597)	\$ 37,117
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>			
Increase (decrease) in due to other funds	1,023	7,494	8,517
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
	<hr/>	<hr/>	<hr/>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	1,023	7,494	8,517
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition and construction of capital assets	-	-	-
Principal payment on long-term bonds	(13,000)	-	(13,000)
Interest paid on long-term bonds	(20,927)	-	(20,927)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	-	-
	<hr/>	<hr/>	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (33,927)	\$ -	\$ (33,927)
<u>INVESTING ACTIVITIES</u>			
Interest Income	998	10	1,008
	<hr/>	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	998	10	1,008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,808	3,907	12,715
Cash and Cash Equivalents, Beginning of Year	82,117	5,650	87,767
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 90,925	\$ 9,557	\$ 100,482

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating Income (Loss)	\$ 20,080	\$ (6,340)	\$ 13,740
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	18,732	3,478	22,210
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			-
(Increase) Decrease in accounts receivable	(111)	(735)	(846)
Increase (Decrease) in accounts payable	2,013	-	2,013
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 40,714</u>	<u>\$ (3,597)</u>	<u>\$ 37,117</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

FIDUCIARY FUND**STATEMENT OF FIDUCIARY NET ASSETS***JUNE 30, 2006*

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	<u>\$ 9</u>	<u>\$ 7</u>
TOTAL ASSETS	<u>9</u>	<u>7</u>
<u>LIABILITIES</u>		
Due to Other Funds	9	7
Due to Other Governmental Units	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	9	7
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **City of Gaastra**, Gaastra, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The City was organized in 1949 and covers an area of 2 square miles. The City operates under an elected board of five (5) commissioners and provides services to its approximately 376 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

There are no blended component units to be included in the financial statements of the **City of Gaastra**.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

An ongoing financial responsibility is defined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

West Iron County Sewer Authority

The **City of Gaastra** has entered into an agreement with several governmental entities in Iron County to form the West Iron County Sewer Authority.

The Authority was established in August 1972 under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and was organized to provide sewer service to the cities of Iron River, Stambaugh, Caspian, Gaastra, and a portion of Iron River Township.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

The first grant applications were filed in 1982. Two members from each participating municipality are appointed by their respective governmental entities to serve on the Board of Trustees of the West Iron County Sewer Authority.

Pursuant to the terms of the Authority's Sewer Use Ordinance adopted by the Authority and each Constituent Municipality, the Authority bills each Constituent Municipality monthly based on such Constituent Municipality's percentage of Equal Dwelling Units ("EDUs") to the total number of EDUs for the entire System. Billing to end users is done by each Constituent Municipality using its own billing system and methodology.

Under the EDU system, the Authority adopts a preliminary budget in April of each year for its next fiscal year beginning the following July 01.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

This preliminary budget is presented to each Constituent Municipality for review and consideration in its budgeting process.

Prior to adopting its final budget in June of each year for the fiscal year beginning the following July 01, the Authority holds a public hearing with respect to the preliminary budget.

The preliminary and final budgets calculate EDU charges to cover both operation, maintenance, and replacement ("OMR") expenses and debt retirement expenses.

Included in OMR charges are funds for future replacements of all major plant equipment. During the fiscal year ended June 30, 2006, the **City of Gaastra** paid to the Authority fees totaling \$ 26,488 for OMR and debt retirement.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)
West Iron County Sewer Authority (Continued)

Financial statements for the West Iron County Sewer Authority can be requested by writing to:

West Iron County Sewer Authority
P.O. Box 246
Caspian, MI 49915

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Caspian-Gaastra Fire Authority

The **Caspian-Gaastra Fire Authority** was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the Cities of Caspian and Gaastra. The **Caspian-Gaastra Fire Authority** was formed on February 01, 2002, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each representative municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

The Authority is funded by assessments from the participating municipalities. During the fiscal year ended June 30, 2006, the City paid an assessment of \$ 4,800 to the Authority for fire protection.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Caspian-Gaastra Fire Authority (Continued)

Financial statements are available by writing to:

Caspian-Gaastra Fire Authority
P.O. Box 350
Caspian, MI 49915

Stambaugh Cemetery Association

The Stambaugh Cemetery Association was established by the Cities of Caspian, Gaastra, and Stambaugh, and the Township of Stambaugh on February 17, 1975. The term of duration was designated to be thirty (30) years.

The City of Stambaugh terminated its participation in the Stambaugh Cemetery Association effective June 30, 2000 in conjunction with the consolidation of three municipalities - the Cities of Iron River and Stambaugh and the Village of Mineral Hills.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Stambaugh Cemetery Association (Continued)

The purpose of the Association is to acquire, own, improve, enlarge, extend, and operate a cemetery system for residents of the Constituent Municipalities.

The Association operates under a Board of Directors, consisting of two (2) persons appointed by each of the Constituent Municipalities' controlling Boards, and is funded by assessments to each of its participating municipalities.

Financial statements can be obtained by request to:

Stambaugh Cemetery Association
P.O. Box 218
Gaastra, MI 49927

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Stambaugh Cemetery Association (Continued)

During the fiscal year ended June 30, 2006, the assessment paid to the Cemetery Association by the City was \$ 2,712.

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to the **City of Gaastra** as defined above.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

The City follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements (Continued)

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) reserved; and 3) unreserved.

Statement of Program Activities

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements.

The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category).

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

In the fund financial statements, financial transactions and accounts of the City are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing sets of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The following is a brief description of the specific funds used by the City.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

The General Fund is always considered to be a major fund for reporting purposes.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The City's *Major & Local Street Funds* are *Special Revenue Funds*. The *Major Street Fund* is considered a major fund for reporting purposes.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Fund

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds.

Currently, the **City of Gaastra** does not require a Capital Projects Fund.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose. The *Water Fund* and *Sewer Funds* are *Proprietary Funds*.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS (Continued)

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The City's *Current Tax Collection Fund* is a *Fiduciary Fund*. Agency funds are custodial in nature and do not involve measurement of results of operations.

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statement of Net Assets and Statement of Activities, all proprietary funds, and private-purpose trust funds and pension trust funds (when applicable) are accounted for on a flow of economic resources measurement focus.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increase (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Assets, Statement of Activities, financial statement of Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on (when applicable) the modified basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the City's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The City classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

At June 30, 2006, the City had no deferred revenue.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the City for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the City for future expenditures.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The City follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 of the preceding fiscal year, the City prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to July 01, the budget is legally enacted through passage of a resolution by the members of the City Council.

Once the budget is approved, it can be amended at the Fund and Function level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY TAXES

The City's property taxes are levied and become a lien on each July 01st based on the taxable valuation of property located in the City as of the preceding December 31st.

These taxes are due on February 14th before they are added to the county delinquent tax rolls on March 01. The County of Iron purchases from the City delinquent real property taxes outstanding as of March 31st of each year.

Although the City ad valorem tax is levied and collectible on July 01st, it is the City's policy to recognize revenue from the current tax levy in the fiscal year for which they have been levied and become available. The 2005 taxable valuation of the City totaled \$ 2,818,855 on which ad valorem taxes levied consisted of 19.3592 mills for the City operating purposes.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the governmental-wide statements to the extent the City's capitalization threshold of \$ 1,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings..... 20 – 30 years

Infrastructure..... 10 – 65 years

Furniture and Other

Equipment..... 5 – 20 years

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

To the extent the City's capitalization threshold of \$1,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

Land Improvements..... 20 years

Equipment..... 5 – 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COMPENSATED ABSENCES

Sick Leave

Full time City employees are granted sick leave under Ordinance 21-B at the rate of one half day per every 173 hours worked. Sick leave can be accumulated up to a maximum of 18 days.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (Continued)

Sick Leave (Continued)

An employee who quits, is discharged, or retires forfeits all rights to draw sick leave pay.

At June 30, 2006, the City's liability for accrued sick leave, plus the related costs of FICA and Medicare, was \$ 4,247.27.

Vacation

Ordinance 21-A grants vacation benefits to full-time employees with one year or more of continuous service who have received earnings in at least 50% of the pay periods in the preceding calendar year, and have not been absent from work for six consecutive months or more in the preceding calendar year. An employee forfeits the right to receive vacation benefits if he/she quits or is discharged prior to January 01 of the vacation year.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (Continued)

Vacation (Continued)

On June 30, 2006, the City's potential liability for accrued vacation, plus the related costs of FICA and Medicare, was \$ 4,864.49.

GASB 16 establishes standards of accounting and reporting for compensated absences, and requires recognition of the liability in the financial statements if the employees' right to receive compensation is based on past service, and it is probable that the employee will receive the accrued benefit at separation. Because of the City's ordinance that employees forfeit all right to such benefits at termination, liability for compensated absences is not reported in the financial statements.

POST EMPLOYEE BENEFITS

The **City of Gaastra** provides no post-employment benefits other than MERS pension.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – INTER-FUND ACTIVITIES

INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE B – INTER-FUND ACTIVITIES (CONTINUED)

INTER-FUND RECEIVABLES AND PAYABLES
(Continued)

The amounts of the inter-fund receivables and payables as of June 30, 2006 were as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$ 13938	\$ 0
Trust and Agency	0	9
Local Street Fund	238	1022
Major Street Fund	0	3288
Water Fund	0	2363
Sewer Fund	<u>0</u>	<u>7494</u>
Total	<u>\$ 14176</u>	<u>\$ 14176</u>

The General Fund is reimbursed for salaries, benefits, and other expenditures from the Major and Local Street Funds, the Water Fund, and the Sewer Fund. These balances clear the following month.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE B – INTER-FUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C – CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES

The bonding ordinances for the 2000 and 2001 Water Supply System Junior Lien Revenue bonds require certain cash balances be reserved for bond repayment.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond and Interest Redemption Fund

Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments accruing on the bonds.

As of June 20, 2006, the City is required to have \$0.00 in the Bond and Interest Redemption Fund. The actual balance on June 30, 2006 is \$ 12,730.

Junior Lien Bond Reserve Account

A reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 441 per quarter, until there is accumulated the sum of \$ 17,640. No further deposits need be made thereafter.

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond Reserve Account (Continued)

On June 30, 2006, the City is required to have \$ 9,447 on deposit in the Bond Reserve Account. The actual balance on June 30, 2006 is \$ 12,697.

Repair, Replacement, and Improvement Fund

The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the Junior Lien Bonds.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH RESERVES (Continued)

***Repair, Replacement, and Improvement Fund
(Continued)***

If the amount in the Bond and Interest Redemption Fund and the Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the monies in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

Beginning October 1, 2000, the City was required to deposit into the RRI Fund an annual amount not less than \$875 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year month. This amount was increased to \$ 991 beginning April 1, 2002.

On June 30, 2006, required deposits in the Repair, Replacement, and Improvement Fund are \$ 22,097. Actual deposits in the Repair, Replacement, and Improvement Fund are \$ 22,526.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

These three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the City or its agent in the City's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS (Continued)

Category 3

Deposits which are not collateralized or insured.

Based on these levels of risk, the City's cash deposits are classified as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Totals</u>
Cash and Deposits	\$ 201549	\$ -0-	\$ 9386	\$ 210935

INVESTMENTS

The City's investments are categorized below to give an indication of the level of risk assumed at year-end.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the City's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the City's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
None	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Total Investments	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the City to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The City has adopted an investment policy, allowing for all types of deposits and investments listed above. The City's deposits and investments are in compliance with its investment policy.

PRIMARY GOVERNMENT

On June 30, 2006, the carrying value of the City's deposits (Primary Government) was \$ 210,935 and is comprised of cash and deposits reflected in the following funds:

<u>Governmental Funds</u>	
General Fund	\$ 109386
Major Street Fund	770
Local Street Fund	<u>289</u>
Total Governmental Funds	\$ 110445

(Continued on page 90)

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

NOTE C – CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

(Continued from previous page)

<u>Enterprise Funds</u>	
Water Fund	\$ 90924
Sewer Fund	<u>9557</u>
<i>Total Enterprise Funds</i>	\$ 100481
 <u>Fiduciary Funds</u>	
Tax Collection Fund	<u>9</u>
<i>Total Fiduciary Funds</i>	\$ 9
 TOTAL PRIMARY GOVERNMENT	 \$ 210935

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

The **City of Gaastra** is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS).

The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries.

The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

**DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)**

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

MERS
447 North Canal Street
Lansing, Michigan 48917-9755

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by the **City of Gaastra's** personnel policy, which does not require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate; the current rate was 8.96 percent at December 31, 2005.

During the fiscal year ended June 30, 2006, the City's contributions totaling \$ 5,421 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005. The employer contribution rate has been determined based on the entry age normal funding method.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

ANNUAL PENSION COST (Continued)

Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Under-funded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 44251	\$ 82730	\$ 38479	53%	\$ 54720	70%
12/31/03	54075	93172	39097	58%	56714	69%
12/31/04	63628	102747	39119	62%	59155	66%
12/31/05	73508	111417	37909	66%	59658	64%

GASB 25 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

GASB 25 AND GASB 27 INFORMATION

Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1997.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/05)

<p><u>Actuarial Accrued Liability</u></p>						
<table><tr><td>Retirees and beneficiaries currently receiving benefits</td><td>\$</td><td>-0-</td></tr><tr><td>Terminated employees not yet receiving benefits</td><td></td><td>-0-</td></tr></table>	Retirees and beneficiaries currently receiving benefits	\$	-0-	Terminated employees not yet receiving benefits		-0-
Retirees and beneficiaries currently receiving benefits	\$	-0-				
Terminated employees not yet receiving benefits		-0-				

(Continued on page 97)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/05)

(Continued from previous page)

Actuarial Accrued Liability

Current employees -		
Accumulated employee contributions including	\$	
allocated investment income		-0-
Employer Financed		<u>111417</u>
Total Actuarial Accrued Liability		111417
Net Assets Available for Benefits at Actuarial Value		<u>73508</u>
(Market Value is \$ 71,571)		
Unfunded (Over-funded) Actuarial Accrued Liability	\$	37909

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE D – PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/05)

Fiscal Year Beginning	July 01, 2007
Annual Required Contribution (ARC)	\$ 5160
Amortization Factor Used	0.053632

NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. The **City of Gaast**ra's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the **City of Gaast**ra were adopted at the activity level.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

**NOTE E – EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The total actual 2005-2006 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 13,293, contrary to the provisions of Section 17 of Public Act 621 of 1978, the “Uniform Budgeting and Accounting Act”.

<u>ACTIVITY (COST CENTER)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER EXPENDITURES</u>
<u>General Fund</u>			
Capital Outlay	\$ 41917	\$ 33324	\$ 8593
<u>Local Street Fund</u>			
Routine Maintenance	15899	11199	4700

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE F – ACCUMULATED FUND DEFICITS

At June 30, 2006, the City had no fund balance/retained earnings deficit in any fund.

NOTE G – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

NOTE H – CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2006:

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE H – CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Restated Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	<u>30000</u>	<u>9313</u>	<u>0</u>	<u>39313</u>
Total Capital Assets Not Being Depreciated	\$ 30000	\$ 9313	\$ 0	\$ 39313
<u>Other Capital Assets</u>				
Land Improvements	1718	0	0	1718
Buildings	225226	8519	0	233745
Infrastructure	220282	0	0	220282
Furniture and Other Equipment	<u>132433</u>	<u>24085</u>	<u>14000</u>	<u>142518</u>
Total Other Capital Assets	\$ 579659	\$ 32604	\$ 14000	\$ 598263
<u>Less Accumulated Depreciation for:</u>				
Land Improvements	(473)	(86)	0	(559)
Buildings	(199150)	(2753)	0	(201903)
Infrastructure	(220282)	0	0	(220282)
Furniture and Other Equipment	<u>(109861)</u>	<u>(8839)</u>	<u>(14000)</u>	<u>(104700)</u>
Total Accumulated Depreciation	(529766)	(11678)	(14000)	(527444)
Other Capital Assets, Net	49893	20926	0	70819
TOTALS	\$ <u>79893</u>	\$ <u>30239</u>	\$ <u>0</u>	\$ <u>110132</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE H – CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES (Continued)

Depreciation was charged to governmental functions as unallocated.

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended June 30, 2006:

	Restated Balance June 30, 2005	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2006
<u>BUSINESS-TYPE ACTIVITIES</u>				
<u>Capital Assets Not Being Depreciated</u>				
Land, Easements and Right of Way	\$ -0-	\$ -0-	\$ -0-	\$ -0-
<u>Other Capital Assets:</u>				
Land and Improvements	-0-	-0-	-0-	-0-
Buildings	44163	-0-	-0-	44163
Infrastructure	1390662	-0-	-0-	1390662
Machinery and Equipment	<u>330034</u>	<u>-0-</u>	<u>-0-</u>	<u>330034</u>
Total Capital Assets	\$ 1764859	\$ -0-	\$ -0-	\$ 1764859

(Continued on page 103)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

	Restated Balance June 30, 2005	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2006
Less Accumulated Depreciation for:				
Land Improvements	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Buildings	(44163)	-0-	-0-	(44163)
Infrastructure	(130276)	(22210)	-0-	(152486)
Machinery and Equipment	<u>(330035)</u>	<u>0</u>	<u>-0-</u>	<u>(330035)</u>
Total Accumulated Depreciation	<u>(504474)</u>	<u>(22210)</u>	<u>-0-</u>	<u>(526684)</u>
TOTALS	\$ <u>1260385</u>	\$ <u>(22210)</u>	\$ <u>-0-</u>	\$ <u>1238175</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT

The following is a summary of changes of the primary government's long-term debt obligation on June 30, 2006:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>Miners State Bank</u>				
# 325100	\$	\$	\$	\$
2006 Chevrolet Pickup	0	9000	1395	7605
<u>Business-Type Activities</u>				
<u>Water Fund</u>				
Water Supply System				
Improvement Bonds	176000	-0-	8000	168000
Junior Lien Revenue				
Bond # 91-01	261000	-0-	4000	257000
Junior Lien Revenue				
Bond # 91-03	<u>81000</u>	<u>-0-</u>	<u>1000</u>	<u>80000</u>
Totals	\$ <u>518000</u>	\$ <u>9000</u>	\$ <u>14395</u>	\$ <u>512605</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**NOTE PAYABLE – MINERS STATE BANK 2006
CHEVROLET PICKUP**

On December 12, 2005, the **City of Gaastra** signed a promissory note in the principal amount of \$ 9,000, bearing interest at the rate of 6.50% for the purchase of a 2006 Chevrolet pickup.

The note is payable in 36 monthly payments of \$ 276.21 beginning January 12, 2006, with all subsequent payments due on the 12th day of each month thereafter.

The principal balance of the note on June 30, 2006 was \$ 7,605.25.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM REVENUE BONDS (GMAC)

The City issued revenue bonds for Water Supply System Improvement on May 20, 1982, bearing an interest rate not to exceed 5% per annum. Interest is payable on January 01 and July 01 of each year. The bonds mature serially on July 01 of each year in the following manner:

<u>For Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 8000	\$ 8400	\$ 16400
2008	8000	8000	16000
2009	9000	7600	16600
2010	9000	7150	16150
2011-2015	50000	28700	78700
2016-2020	58000	15350	73350
2021-2023	<u>26000</u>	<u>1950</u>	<u>27950</u>
Totals	\$ <u>168000</u>	\$ <u>77150</u>	\$ <u>245150</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND**

On November 28, 2000, the **City of Gaastra** issued a bond consisting of one fully-registered nonconvertible bond of the denomination of \$ 278,000, payable in principal installments serially on July 01 of each year.

Bond proceeds are to be used for the purpose of acquiring and constructing certain additions, renovations, expansions and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way and all appurtenances and attachments thereto.

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed three and one-quarter percent (3.25%) per annum, payable on the first January 01 or July 01 following the date of delivery of said delivery installment, and semi-annually thereafter on January 01 and July 01 of each year until maturity or earlier payment of said installment.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 4000	\$ 8353	\$ 12353
2008	4000	8222	12222
2009	4000	8093	12093
2010	4000	7962	11962
2011-2015	24000	37667	61667
2016-2020	28000	33540	61540
2021-2025	34000	28665	62665
2026-2030	41000	22588	63588
2031-2035	47000	15567	62567
2036-2040	55000	7443	62443
2041	<u>12000</u>	<u>390</u>	<u>12390</u>
Totals	\$ <u>257000</u>	\$ <u>178490</u>	\$ <u>435490</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND**

On July 24, 2001, the **City of Gaastra** issued a bond consisting of one fully-registered, non-convertible bond in the total aggregate principal sum of \$ 85,000, issued pursuant to Ordinance No. 31, as amended, Ordinance No. 44, and Ordinance 45 (together, the "Ordinances"), and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended, for the purpose of acquiring and constructing certain additions, renovations, expansions, and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way, and all appurtenances and attachments thereto.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed four and one-half percent (4.50%) per annum, payable beginning on January 01, 2002, and semiannually thereafter on January 01, and July 01 of each year until maturity or earlier prepayment of said installment.

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 1000	\$ 3641	\$ 4641

(Continued on page 111)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

(Continued from previous page)

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 1000	\$ 3595	\$ 4595
2009	1000	3549	4549
2010	1000	3504	4504
2011-2015	6500	16769	23269
2016-2020	8000	15131	23131
2021-2025	10000	13083	23083
2026-2030	13000	10580	23580
2031-2035	16000	7372	23372
2036-2040	20000	3390	23390
2041	<u>2500</u>	<u>114</u>	<u>2614</u>
Totals	\$ <u>80000</u>	\$ <u>80728</u>	\$ <u>160728</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE J - SEGMENT INFORMATION - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 68072	\$ 55225	\$ 123297
Depreciation and Amortization Expense	18732	3478	22210
Operating Income (Loss)	20080	(6340)	13740
Operating Grants, Entitlements, and shared Revenues	0	0	0
Operating Transfers:			
In	0	0	0
(Out)	0	0	0
Tax Revenues	0	0	0
Net Income or Loss	151	(6330)	(6179)
Current Capital:			
Contributions	0	0	0
Transfers	\$ 0	\$ 0	\$ 0

(Continued on page 113)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE J - SEGMENT INFORMATION - Enterprise Funds

(Continued from previous page)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Property, Plant, and Equipment	\$	\$	\$
Additions	0	0	0
Deletions	0	0	0
Net Working Capital	40062	4464	44526
Total Assets	1216187	126338	1342525
Bonds and Other Long-Term Liabilities			
Payable from Operating Revenues	505000	0	505000
Payable from Other Sources	0	0	0
 Total Equity	 \$ 706811	 \$ 126338	 \$ 833149

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE L - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2006, there were no subsequent events that would have a significant affect on the City's operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

The City participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2006

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2006 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GAASTRA

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
General Property Taxes	\$ 59,471	\$ 54,667	\$ 54,569
Other Local Taxes	-	-	-
Penalties and Interest on Taxes	1,500	3,890	4,139
Use of Money and Property	44,100	65,158	66,607
Charges for Services	8,365	9,139	9,139
Miscellaneous	600	11,545	11,861
Recovered Costs	-	-	-
Intergovernmental	55,206	53,101	53,082
Sale of Assets	10,000	3,225	7,225
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	179,242	200,725	206,622
 <u>EXPENDITURES</u>			
General Government	87,665	104,344	104,344
Legislative	22,200	12,892	12,892
Public Safety	8,531	8,531	8,531
Public Works	50,261	67,051	74,162
Sanitation and Health	7,440	9,280	8,660
Culture and Recreation	3,145	3,370	3,370
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	179,242	205,468	211,959
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	(7,177)	(7,177)
Transfers to Component Units	-	-	-
Loan Proceeds	-	9,000	9,000
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	1,823	1,823
 NET CHANGE IN FUND BALANCE	-	(2,920)	(3,514)
 FUND BALANCE - BEGINNING OF YEAR	<hr/> 133,568	<hr/> 133,568	<hr/> 133,568
 FUND BALANCE - END OF YEAR	<hr/> \$ 133,568	<hr/> \$ 130,648	<hr/> \$ 130,054

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
State Transportation Funds	\$ 50,001	\$ 52,147	\$ 52,202
Other Revenue	-	-	-
TOTAL REVENUE	50,001	52,147	52,202
<u>EXPENDITURES</u>			
Administration	1,530	1,500	1,500
Routine Maintenance	22,204	28,343	27,748
Winter Maintenance	26,267	25,510	25,510
Capital Outlay	-	-	-
TOTAL EXPENDITURES	50,001	55,353	54,758
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Transfers to Component Units	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	-	(3,206)	(2,556)
FUND BALANCE - BEGINNING OF YEAR	7,832	7,832	7,832
FUND BALANCE - END OF YEAR	\$ 7,832	\$ 4,626	\$ 5,276

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

CITY OF GAASTRA

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Local Street Fund	Debt Service Fund	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	\$ 289	-	\$ 289
Receivables			
Accounts Receivable - State	2,139	-	2,139
Due from Other Funds	238	-	238
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 2,666</u>	<u>-</u>	<u>2,666</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	-	-	-
Due to Other Funds	1,022	-	1,022
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	1,022	-	1,022
<u>FUND BALANCE</u>			
Reserved for Local Streets	1,644	-	1,644
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE	1,644	-	1,644
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 2,666</u>	 <u>\$ -</u>	 <u>\$ 2,666</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2006

	<u>Local Street Fund</u>	<u>Debt Service Fund</u>	<u>TOTAL</u>
<u>REVENUE</u>			
Use of money and property	\$ -	\$ -	\$ -
Miscellaneous local revenue	-	-	-
Intergovernmental	15,085	-	15,085
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	\$ 15,085	-	\$ 15,085
 <u>EXPENDITURES</u>			
Current:			
Highways and streets	20,679	-	20,679
Capital Outlay	-	-	-
Debt Service:			
Principal		1,395	1,395
Interest	-	262	262
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	20,679	1,657	22,336
 Excess (Deficiency) of Revenues Over Expenditures	 (5,594)	 (1,657)	 (7,251)
 <u>Other Financing Sources (Uses)</u>			
Operating transfers in	5,520	1,657	7,177
Operating transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	5,520	1,657	7,177
 Net Change in Fund Balances	 (74)	 -	 (74)
 FUND BALANCE - BEGINNING OF YEAR	 1,718	 -	 1,718
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 1,644	\$ -	\$ 1,644
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

ALL SPECIAL REVENUE FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2006

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Deposits, Unrestricted	\$ 770	\$ 289	\$ 1,059
Accounts Receivable, State	7,794	2,139	9,933
Due from Other Funds	<u>-</u>	<u>238</u>	<u>238</u>
TOTAL ASSETS	<u>\$ 8,564</u>	<u>\$ 2,666</u>	<u>\$ 11,230</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Due to Other Funds	<u>3,288</u>	<u>1,022</u>	<u>4,310</u>
TOTAL LIABILITIES	3,288	1,022	4,310
<u>FUND EQUITY</u>			
Fund Balance, Reserved	<u>5,276</u>	<u>1,644</u>	<u>6,920</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 8,564</u>	<u>\$ 2,666</u>	<u>\$ 11,230</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**ALL SPECIAL REVENUE FUNDS - COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2006

	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTAL</u>
REVENUES			
STATE REVENUE			
State Transportation Funds	\$ 52,202	\$ 15,085	\$ 67,287
TOTAL REVENUES	52,202	15,085	67,287
EXPENDITURES			
Administration	1,500	400	1,900
Routine Maintenance	27,748	15,899	43,647
Winter Maintenance	25,510	4,380	29,890
Capital Outlay	-	-	-
TOTAL EXPENDITURES	54,758	20,679	75,437
Excess of Revenues Over (Under) Expenditures	(2,556)	(5,594)	(8,150)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	-	5,520	5,520
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,556)	(74)	(2,630)
FUND BALANCE, JULY 1	7,832	1,718	9,550
FUND BALANCE, JUNE 30	<u>\$ 5,276</u>	<u>\$ 1,644</u>	<u>\$ 6,920</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

ALL ENTERPRISE FUNDS -COMBINING BALANCE SHEET

JUNE 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
<i>Current Assets</i>			
Cash, unrestricted	\$ 42,971	\$ 9,557	\$ 52,528
Accounts Receivable	1,467	2,401	3,868
Due from other funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total Current Assets	44,438	11,958	56,396
<i>Noncurrent Assets</i>			
Restricted cash	47,953	-	47,953
Capital assets:			
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	173,109	1,390,662
Less:			
Allowance for depreciation	(467,954)	(58,729)	(526,683)
Total capital assets, net	<hr/> 1,123,796	<hr/> 114,380	<hr/> 1,238,176
Total Noncurrent Assets	1,171,749	114,380	1,286,129
TOTAL ASSETS	\$ 1,216,187	\$ 126,338	\$ 1,342,525
<u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Accounts payable	2,013	-	2,013
Due to other funds	2,363	7,494	9,857
Current portion of long-term debt	13,000	-	13,000
Deferred revenues	-	-	-
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	17,376	7,494	24,870
<i>Non-current Liabilities</i>			
Revenue bonds payable	<hr/> 492,000	<hr/> -	<hr/> 492,000
Total Non-current Liabilities	492,000	-	492,000
TOTAL LIABILITIES	\$ 509,376	\$ 7,494	\$ 516,870
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	618,796	114,380	733,176
Reserved	88,015	4,464	92,479
Unreserved, undesignated	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 706,811	\$ 118,844	\$ 825,655

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS**

YEAR ENDED JUNE 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 66,873	\$ 55,175	\$ 122,048
Miscellaneous	<u>1,199</u>	<u>50</u>	<u>1,249</u>
TOTAL OPERATING REVENUES	\$ 68,072	\$ 55,225	\$ 123,297
<u>OPERATING EXPENSES</u>			
Personal Services and Benefits	1,359	850	2,209
Contractual Services	3,927	26,988	30,915
Repairs and Maintenance	-	-	-
Other Supplies and Expenses	23,974	30,249	54,223
Depreciation	<u>18,732</u>	<u>3,478</u>	<u>22,210</u>
TOTAL OPERATING EXPENSES	\$ 47,992	\$ 61,565	\$ 109,557
OPERATING INCOME (LOSS)	20,080	(6,340)	13,740
<u>Non-Operating Revenues (Expenses)</u>			
Interest and Investment Revenue	998	10	1,008
Interest Expense	<u>(20,927)</u>	<u>-</u>	<u>(20,927)</u>
Total Non-Operating Revenues (Expenses)	(19,929)	10	(19,919)
Change in Net Assets	151	(6,330)	(6,179)
NET ASSETS - BEGINNING OF YEAR	<u>706,660</u>	<u>125,174</u>	<u>831,834</u>
NET ASSETS - END OF YEAR	<u>\$ 706,811</u>	<u>\$ 118,844</u>	<u>\$ 825,655</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM (USED BY)	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<u>OPERATING ACTIVITIES</u>			
Net cash received from fees and services	\$ 66,762	\$ 54,440	\$ 121,202
Other operating revenues	1,199	50	1,249
Cash payments to employees for services	(1,359)	(850)	(2,209)
Cash payments for goods and services	(25,888)	(57,237)	(83,125)
Other operating expenses	-	-	-
NET CASH FROM OPERATING ACTIVITIES	40,714	(3,597)	37,117
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>			
Increase (decrease) in due to other funds	1,023	7,494	8,517
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	1,023	7,494	8,517
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition and construction of capital assets	-	-	-
Principal payment on long-term bonds	(13,000)	-	(13,000)
Interest paid on long-term bonds	(20,927)	-	(20,927)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	-	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(33,927)	-	(33,927)
<u>INVESTING ACTIVITIES</u>			
Interest Income	998	10	1,008
NET CASH FROM INVESTING ACTIVITIES	998	10	1,008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,808	3,907	12,715
Cash and Cash Equivalents, Beginning of Year	82,117	5,650	87,767
Cash and Cash Equivalents, End of Year	\$ 90,925	\$ 9,557	\$ 100,482

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**ALL ENTERPRISE FUNDS - COMBINING STATEMENT OF CASH FLOWS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating Income (Loss)	\$ 20,080	\$ (6,340)	13,740
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	18,732	3,478	22,210
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			-
(Increase) Decrease in accounts receivable	(111)	(735)	(846)
Increase (Decrease) in accounts payable	2,013	-	2,013
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 40,714</u>	<u>\$ (3,597)</u>	<u>\$ 37,117</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GENERAL FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2006

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 109,386	\$ 120,241
Accounts Receivable, State	5,957	5,976
Taxes Receivable	6,086	5,618
Due from Other Funds	<u>13,938</u>	<u>5,490</u>
TOTAL ASSETS	<u>\$ 135,367</u>	<u>\$ 137,325</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	5,313	3,622
Accrued Benefits	<u>-</u>	<u>135</u>
TOTAL LIABILITIES	5,313	3,757
<u>FUND EQUITY</u>		
Fund Balance, Unreserved	<u>130,054</u>	<u>133,568</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 135,367</u>	<u>\$ 137,325</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GENERAL FUND - STATEMENT OF REVENUES - ACTUAL AND BUDGET

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>LOCAL REVENUE</u>				
Property Taxes				
Current Levy	\$ 54,569	\$ -	\$ -	\$ 52,361
Interest, Penalties and Collection Fees	4,139			744
Total Property Taxes	58,708	58,557	151	53,105
Rental Income				
Equipment Rental	63,200	-	-	61,983
Sign Rental	350			-
Total Rental Income	63,550	62,103	1,447	61,983
Other Sources				
Interest Income	3,057	-	-	1,426
Sale of Garbage Bags	9,139			8,312
Sale of Land	2,895	-	-	74,821
Sale of Assets	4,330			-
Donations	-	-	-	250
Miscellaneous	11,861			1,617
Total Other Sources	31,282	26,964	4,318	86,426
TOTAL LOCAL REVENUE	153,540	147,624	5,916	201,514
<u>STATE SHARED REVENUE</u>				
Sales Tax Distribution	50,103	-	-	50,948
Annual Maintenance	2,979			-
TOTAL STATE SHARED REVENUE	53,082	53,101	(19)	50,948
TOTAL REVENUE	206,622	200,725	5,897	252,462
<u>OTHER FINANCING SOURCES</u>				
Loan Proceeds	9,000	9,000	-	-
TOTAL OTHER FINANCING SOURCES	9,000	9,000	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 215,622	\$ 209,725	\$ 5,897	\$252,462

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET

FISCAL YEAR ENDED JUNE 30, 2006
 (With Comparative Totals for Fiscal Year ended June 30, 2005)

	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
			<u>FAVORABLE</u>	<u>ENDED</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>(UNFAVORABLE)</u>	<u>6/30/05</u>
<u>LEGISLATIVE</u>				
Commissioner Fees	\$ 3,930	\$ -	\$ -	\$ 3,491
Fringe Benefits	301			-
Supplies	120	\$ -	\$ -	-
Legal Fees	5,703			8,122
Accounting / Audit	1,203	-	-	1,592
Printing and Publishing	50			122
Contract Services	551	-	-	-
Dues	1,034			511
TOTAL LEGISLATIVE	\$ 12,892	\$ 12,892	\$ -	\$ 13,838
<u>GENERAL GOVERNMENT</u>				
City Manager				
Salary	11,850	-	-	13,593
Fringe Benefits	4,567			5,064
Fees	30	-	-	255
Insurance	7,655			7,655
Supplies	-	-	-	11
Miscellaneous	327			20
Total City Manager	24,429	24,429	-	26,598
City Clerk / Treasurer				
Salary	30,395	-	-	28,775
Fringe Benefits	5,870			6,087
Contract Services	1,451	-	-	1,217
Fees	182			305
Insurance	9,636	-	-	8,592
Other	61			5
Supplies	152			695
Total City Clerk / Treasurer	\$ 47,747	\$ 47,747	\$ -	\$ 45,676

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE</u>	<u>ENDED</u>
			<u>(UNFAVORABLE)</u>	<u>6/30/05</u>
<u>GENERAL GOVERNMENT (continued)</u>				
Cemetery				
Stambaugh Cemetery Association	\$ 2,712	\$ -	\$ -	\$ 2,712
Total Cemetery	\$ 2,712	\$ 2,712	\$ -	\$ 2,712
 City Property				
Salary	\$ 2,080	\$ -	\$ -	\$ 1,341
Fringe Benefits	159			103
Contract Services	1,566	-	-	1,682
Supplies and Other	2,253			3,063
Utilities	15,545			14,136
Total City Property	21,603	21,603	-	20,325
 Assessor / Equalization				
Personal Services	2,049	-	-	2,019
Supplies	268			99
Total Assessor	2,317	2,317	-	2,118
 Elections				
Printing and Publishing	240	-	-	-
Supplies	401			445
Fees	864			870
Other	-	-	-	89
Total Elections	\$ 1,505	\$ 1,505	\$ -	\$ 1,404

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>GENERAL GOVERNMENT (continued)</u>				
Board of Review				
Fees	\$ 130	\$ -	\$ -	\$ 155
Printing and Publishing	80			70
Total Board of Review	210	210	-	225
 Zoning Board	 -	 -	 -	 100
 TOTAL GENERAL GOVERNMENT	 \$ 100,523	 \$ 100,523	 \$ -	 \$ 99,158
 PUBLIC SAFETY - FIRE				
Caspian - Gaastra Fire Authority Assessment	8,531			30,889
TOTAL PUBLIC SAFETY	\$ 8,531	\$ 8,531	\$ -	\$ 30,889
 PUBLIC WORKS				
Salary	\$ 15,679	\$ -	\$ -	\$ 15,132
Fringe Benefits	1,199			1,158
Printing/Publishing	40	-	-	
Contract Services	415			160
Equipment Rental	-			508
Fuel, Grease and Oil	1,557	-	-	4,901
Other Costs	161			-
Repairs and Maintenance	265	-	-	1,164
Supplies	6,699			5,504
Utilities	1,261			2,195
TOTAL PUBLIC WORKS	\$ 27,276	\$ 29,558	\$ 2,282	\$ 30,722
 PARKS AND RECREATION				
Salary	1,390	-	-	846
Fringe Benefits	106			65
Fees	-			5,500
Supplies	1,874			751
TOTAL PARKS AND RECREATION	\$ 3,370	\$ 3,370	\$ -	\$ 7,162

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**GENERAL FUND - STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
SANITATION				
Collection Fees	\$ 7,130	\$ -	\$ -	\$ 7,390
Recycling Fees	-			150
Supplies	1,530			-
TOTAL SANITATION	\$ 8,660	\$ 9,280	\$ 620	\$ 7,540
 STREET LIGHTING	 4,969	 4,969	 -	 4,495
 CAPITAL OUTLAY	 41,917	 33,324	 (8,593)	 11,480
 OTHER				
Insurance	2,547			2,657
New Construction Power Reimbursement	-			7,711
Community Promotion	1,274			680
TOTAL OTHER	3,821	3,821	-	11,048
 TOTAL EXPENDITURES	 \$211,959	 \$206,268	 \$ (5,691)	 \$ 216,332
 <u>OTHER FINANCING USES :</u>				
Transfer to Other Funds :				
Local Street Fund	5,520	5,520	-	-
Debt Service Fund	1,657	1,657	-	-
TOTAL OTHER FINANCING USES	7,177	7,177	-	-
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u>\$219,136</u>	 <u>\$213,445</u>	 <u>\$ (5,691)</u>	 <u>\$ 216,332</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

MAJOR STREET FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 770	\$ 3,976
Accounts Receivable, State	<u>7,794</u>	<u>7,739</u>
TOTAL ASSETS	<u>\$ 8,564</u>	<u>\$ 11,715</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	-	672
Due to Other Funds	<u>3,288</u>	<u>3,211</u>
TOTAL LIABILITIES	3,288	3,883
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>5,276</u>	<u>7,832</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 8,564</u>	<u>\$ 11,715</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

MAJOR STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ACTUAL AND BUDGET

FISCAL YEAR ENDED JUNE 30, 2006
 (With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
REVENUES				
State Sources				
State Transportation Funds	\$ 52,202	\$ 52,147	\$ 55	\$ 49,473
TOTAL REVENUES	52,202	52,147	55	49,473
EXPENDITURES				
Administration				
Legal and Accounting	1,200	-	-	1,350
Contract Services	300			100
Supplies	-	-	-	61
Total Administration	1,500	1,500	-	1,511
Routine Maintenance				
Salaries and Wages	2,252	-	-	2,865
Fringe Benefits	172			219
Supplies	3,219	-	-	1,368
Equipment Rental	22,105			23,888
Total Routine Maintenance	27,748	28,343	595	28,340
Winter Maintenance				
Salaries and Wages	3,950	-	-	1,758
Fringe Benefits	302			135
Equipment Rental	18,968	-	-	17,995
Supplies	2,290			1,875
Total Winter Maintenance	25,510	25,510	-	21,763
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ 54,758	\$ 55,353	\$ 595	\$ 51,614

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**MAJOR STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND EQUITY – ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			<u>FISCAL YEAR ENDED 6/30/05</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
Excess of Revenues Over (Under) Expenditures	\$ (2,556)	\$ (3,206)	\$ 650	\$ (2,141)
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,556)	(3,206)	650	(2,141)
FUND BALANCE, JULY 1	<u>7,832</u>			<u>9,973</u>
FUND BALANCE, JUNE 30	<u>\$ 5,276</u>			<u>\$ 7,832</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

LOCAL STREET FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 289	\$ 1,198
Accounts Receivable, State	2,139	2,124
Due from Other Funds	<u>238</u>	<u>238</u>
TOTAL ASSETS	<u>2,666</u>	<u>3,560</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accounts Payable	-	672
Due to Other Funds	<u>1,022</u>	<u>1,170</u>
TOTAL LIABILITIES	1,022	1,842
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>1,644</u>	<u>1,718</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,666</u>	<u>\$ 3,560</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

LOCAL STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ACTUAL AND BUDGET

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	FISCAL YEAR ENDED JUNE 30, 2006			FISCAL YEAR ENDED 6/30/05
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
REVENUES				
State Sources				
State Transportation Funds	\$ 15,085	\$ -	\$ -	\$ 13,124
TOTAL REVENUES	\$ 15,085	\$ 15,069	\$ 16	\$ 13,124
EXPENDITURES				
Administration				
Legal and Accounting	400	-	-	280
Contract Services	-			75
Supplies	-			450
Total Administration	400	400	-	805
Routine Maintenance				
Salaries and Wages	790	-	-	2,010
Fringe Benefits	60			153
Supplies	861	-	-	715
Contracted Services	11,040			-
Equipment Rental	3,148			3,967
Total Routine Maintenance	15,899	11,199	(4,700)	6,845
Winter Maintenance				
Salaries and Wages	1,580	-	-	960
Fringe Benefits	121			74
Equipment Rental	2,679	-	-	4,412
Supplies	-			1,250
Total Winter Maintenance	\$ 4,380	\$ 4,380	\$ -	\$ 6,696

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**LOCAL STREET FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>FISCAL YEAR ENDED JUNE 30, 2006</u>			<u>FISCAL YEAR ENDED 6/30/05</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	\$ 20,679	\$ 15,979	\$ (4,700)	\$ 14,346
Excess of Revenues Over (Under) Expenditures	(5,594)	(910)	(4,684)	(1,222)
Other Financing Sources (Uses)				
Operating Transfers In (Out)	<u>5,520</u>	<u>-</u>	<u>5,520</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(74)	(910)	836	(1,222)
FUND BALANCE, JULY 1	<u>1,718</u>			<u>2,940</u>
FUND BALANCE, JUNE 30	<u>\$ 1,644</u>			<u>\$ 1,718</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

DEBT SERVICE FUND – BALANCE SHEET

JUNE 30, 2006

ASSETS

Cash and Deposits	\$ -
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TOTAL ASSETS	\$ -
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FUND EQUITY

Fund Balance, Reserved	\$ -
------------------------	------

TOTAL FUND EQUITY	\$ -
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**DEBT SERVICE FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE**

FISCAL YEAR ENDED JUNE 30, 2006

REVENUES

Interest Income	\$ -
TOTAL REVENUES	\$ -

EXPENDITURES

Debt Service

Principal	1,395
Interest	262
TOTAL EXPENDITURES	\$ 1,657

Excess of Revenues Over (Under) Expenditures	(1,657)
---	---------

OTHER FINANCING SOURCES (USES)

Operating Transfers In (Out)	1,657
------------------------------	-------

Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-
--	---

FUND BALANCE, JULY 1	-
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FUND BALANCE, JUNE 30	\$ -
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

WATER FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 42,971	\$ 41,076
Cash and Deposits, Restricted	47,953	41,041
Accounts Receivable		
State Sources	-	-
Other Sources	1,467	1,356
Property, Plant, and Equipment (Net of Depreciation)	<u>1,123,796</u>	<u>1,142,527</u>
TOTAL ASSETS	<u>1,216,187</u>	<u>1,226,000</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due to Other Funds	2,363	1,340
Accounts Payable	2,013	-
Notes / Bonds Payable	<u>505,000</u>	<u>518,000</u>
TOTAL LIABILITIES	509,376	519,340
<u>FUND EQUITY</u>		
Retained Earnings	<u>706,811</u>	<u>706,660</u>
TOTAL FUND EQUITY	<u>706,811</u>	<u>706,660</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,216,187</u>	<u>\$ 1,226,000</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

WATER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
User Fees	\$ 61,473	\$ 56,243
Hydrant Fees	5,400	4,800
Other Revenue	<u>1,199</u>	<u>2,317</u>
TOTAL OPERATING REVENUES	68,072	63,360
<u>OPERATING EXPENSES</u>		
Administration		
Supplies	726	702
Printing and Publishing	343	329
Legal and Audit	1,874	1,200
Contract Services	2,053	1,130
Training / Travel	277	421
Other	<u>115</u>	<u>5</u>
Total Administration	5,388	3,787
Water Lines / Samples		
Salaries and Wages	1,262	765
Fringe Benefits	97	59
Supplies	824	1,279
Equipment Rental	2,142	1,183
Other	<u>-</u>	<u>152</u>
Total Water Lines / Samples	4,325	3,438
Hydrants		
Equipment Rental	2,112	-
Contract Services	<u>-</u>	<u>1,720</u>
Total Hydrants	2,112	1,720
Pumps / Lift Stations		
Supplies	770	61
Utilities	3,641	3,964
Equipment Rental	<u>3,759</u>	<u>3,066</u>
Total Pumps / Lift Stations	\$ 8,170	\$ 7,091

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**WATER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

<u>OPERATING EXPENSES (continued)</u>	<u>2006</u>	<u>2005</u>
Water Tank		
Supplies	\$ -	\$ 74
Equipment Rental	403	382
Fees	2,013	-
Other	-	65
	<u>-</u>	<u>65</u>
Total Water Tank	2,416	521
Meters		
Salaries and Wages	400	-
Fringe Benefits	31	-
Supplies	768	3,668
Fees	1,000	800
	<u>1,000</u>	<u>800</u>
Total Meters	2,199	4,468
Other Expenses		
Insurance	4,650	4,300
Depreciation	18,732	19,021
Other	-	-
	<u>-</u>	<u>-</u>
Total Other Expenses	23,382	23,321
TOTAL OPERATING EXPENSES	47,992	44,346
OPERATING INCOME (LOSS)	20,080	19,014
Non-Operating Revenue		
Interest Income	998	596
Non-Operating Expenses		
Interest and Fiscal Charges	(20,927)	(21,453)
NET INCOME (LOSS)	151	(1,843)
RETAINED EARNINGS, JULY 1	<u>706,660</u>	<u>708,503</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 706,811</u>	<u>\$ 706,660</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

WATER FUND - STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

CASH FLOWS FROM (USED BY)	2006	2005
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 66,762	\$ 61,095
Other operating revenues	1,199	2,317
Cash payments to employees for services	(1,359)	(824)
Cash payments for goods and services	(25,888)	(24,501)
Other operating expenses	-	-
NET CASH FROM OPERATING ACTIVITIES	40,714	38,087
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	1,023	-
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	1,023	-
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	-	-
Principal payment on long-term bonds	(13,000)	(12,000)
Interest paid on long-term bonds	(20,927)	(21,453)
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	-	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(33,927)	(33,453)
<u>INVESTING ACTIVITIES</u>		
Interest Income	998	596
NET CASH FROM INVESTING ACTIVITIES	998	596
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,808	5,230
Cash and Cash Equivalents, Beginning of Year	82,117	76,887
Cash and Cash Equivalents, End of Year	\$ 90,925	\$ 82,117

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**WATER FUND - STATEMENT OF CASH FLOWS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 20,080	\$ 19,014
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	18,732	19,021
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	(111)	52
Increase (Decrease) in accounts payable	2,013	-
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 40,714</u>	<u>\$ 38,087</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

SEWER FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Deposits, Unrestricted	\$ 9,557	\$ 5,650
Accounts Receivable		
State Sources	-	-
Other Sources	2,401	1,666
Property, Plant, and Equipment (Net of Depreciation)	<u>114,380</u>	<u>117,858</u>
TOTAL ASSETS	<u>\$ 126,338</u>	<u>\$ 125,174</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	<u>7,494</u>	<u>-</u>
TOTAL LIABILITIES	7,494	-
 <u>FUND EQUITY</u>		
Retained Earnings	<u>118,844</u>	<u>125,174</u>
TOTAL FUND EQUITY	118,844	125,174
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 126,338</u>	<u>\$ 125,174</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

SEWER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
User Fees	\$ 48,975	\$ 38,961
Sewer Line Fees	6,200	5,400
Other Revenue	<u>50</u>	<u>50</u>
TOTAL OPERATING REVENUES	\$ 55,225	\$ 44,411
<u>OPERATING EXPENSES</u>		
Administration		
Supplies	475	502
Legal and Audit	500	500
Printing and Publishing	-	134
Contract Services	<u>19,568</u>	<u>330</u>
Total Administration	20,543	1,466
Operation of Plant (Lift Stations/Pump)		
Supplies	137	473
Insurance	1,600	1,200
Electricity	585	524
Equipment Rental	2,348	2,856
Other	<u>-</u>	<u>200</u>
Total Operation of Plant	4,670	5,253
Operation of Lines		
Salaries	790	651
Fringe Benefits	60	50
Supplies	-	409
Equipment Rental	<u>5,536</u>	<u>4,399</u>
Total Operation of Lines	6,386	5,509
Sewer Treatment		
Contract Services - West Iron County Sewer Authority	<u>26,488</u>	<u>30,209</u>
Total Sewer Treatment	\$ 26,488	\$ 30,209

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**SEWER FUND - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal year ended June 30, 2005)

<u>OPERATING EXPENSES (continued)</u>	<u>2006</u>	<u>2005</u>
Other Expenses		
Depreciation	\$ 3,478	\$ 3,478
Total Other Expenses	3,478	3,478
TOTAL OPERATING EXPENSES	61,565	45,915
 OPERATING INCOME (LOSS)	 (6,340)	 (1,504)
 Non-Operating Revenue		
Interest Income	<u>10</u>	<u>8</u>
 NET INCOME (LOSS)	 (6,330)	 (1,496)
 RETAINED EARNINGS, JULY 1	 <u>125,174</u>	 <u>126,670</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 118,844</u>	<u>\$ 125,174</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

SEWER FUND - STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

(With Comparative Totals for Fiscal Year Ended June 30, 2005)

CASH FLOWS FROM (USED BY)	2006	2005
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 54,440	\$ 44,196
Other operating revenues	50	50
Cash payments to employees for services	(850)	(701)
Cash payments for goods and services	(57,237)	(41,736)
Other operating expenses	-	-
NET CASH FROM OPERATING ACTIVITIES	(3,597)	1,809
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	7,494	-
(Increase) decrease in due from other funds	-	-
Net operating transfers in (out)	-	-
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	7,494	-
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	-	-
Principal payment on long-term bonds	-	-
Interest paid on long-term bonds	-	-
Interest and tax expense	-	-
Proceeds from borrowings	-	-
Contributed capital grants	-	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	-
<u>INVESTING ACTIVITIES</u>		
Interest Income	10	8
NET CASH FROM INVESTING ACTIVITIES	10	8
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,907	1,817
Cash and Cash Equivalents, Beginning of Year	5,650	3,833
Cash and Cash Equivalents, End of Year	\$ 9,557	\$ 5,650

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**SEWER FUND - STATEMENT OF CASH FLOWS
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2006
(With Comparative Totals for Fiscal Year Ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (6,340)	\$ (1,504)
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	3,478	3,478
. Provision for uncollectible accounts	-	-
. Changes in assets and liabilities :		
(Increase) Decrease in accounts receivable	(735)	(165)
Increase (Decrease) in accounts payable	-	-
Increase (Decrease) in deferred revenue	-	-
Increase (Decrease) in customer deposits	-	-
NET CASH FROM OPERATING ACTIVITIES	<u>\$ (3,597)</u>	<u>\$ 1,809</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DS Rostagno, CPA, P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Members of the City Council
City of Gaastra
PO Box 218
Gaastra, Michigan 49927

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** as of and for the year ended June 30, 2006, which collectively comprise the **City of Gaastra's** basic financial statements, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **City of Gaastra's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

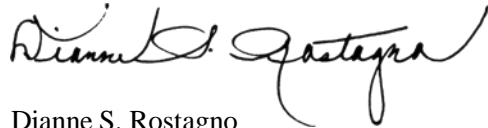
As part of obtaining reasonable assurance about whether the **City of Gaastra's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the **City of Gaastra**, Gaastra, Michigan in a separate letter dated October 19, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno", written in a cursive style.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 19, 2006

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, MI 49927

In planning and performing the audit of the financial statements of the **City of Gaastra**, we considered the City's internal control structure to plan the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated October 19, 2006 on the financial statements of the **City of Gaastra**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate City officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. Our comments are summarized as follows:

BUDGETARY

Problem

During the prior fiscal year ended June 30, 2005, the City incurred several expenditures which were in excess of amounts appropriated.

Recommendation

It was recommended that closer monitoring be done in regards to budgetary appropriations and expenditures.

Resolution

During the fiscal year ended June 30, 2006, there were several expenditures which exceeded appropriated amounts.

Continued Recommendation

In the future, closer monitoring should be done, comparing expenditures with budgetary appropriations, and amending the budget as necessary.

City of Gaastra

The above recommendations have been discussed with City officials.

It has been a pleasure working with the City Officials, and we wish to express our appreciation for their cooperation and assistance during the audit engagement.

Yours very truly,

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more prominent and the last name "Rostagno" following in a similar style.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 19, 2006